ASCS BACKGROUND INFORMATION

Agricultural Stabilization and Conservation Service
U. S. Department of Agriculture

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ACQUISITION AND DISPOSAL OF FARM COMMODITIES BY CCC

In its price support, loan and purchase operations and in various programs to promote the general welfare, the Commodity Credit Corporation (CCC) acquires, transports, stores, processes and disposes of various agricultural commodities and their products.

Stocks owned or pledged to the Corporation have been referred to variously as the "farm surplus," the "price-support" inventory, the "CCC" inventory, and as "Ever-Normal-Granary" stocks.

Stocks May be Both Asset and Liability

The entire quantity of a commodity in the CCC inventory, when acquired, should not be considered as a true "surplus." Some part of the stocks held by CCC would otherwise be "carryover" in the hands of producers and the trade.

The CCC inventory also often includes stocks which -- although on occasion larger than normal carryover -- may be considered desirable as reserves to ease tight supply situations.

While CCC inventories at times have been considered national assets, they offer disadvantages, too. Storage costs can be large. At one time, CCC storage costs ran well over $1,000,000 a day. Consequently, CCC keeps looking for useful outlets through which it can dispose of its stocks. This movement is designed to meet domestic and export needs, and at the same time to help maintain the inventory at manageable levels. Because of price and supply changes, deterioration, sales at competitive export prices, and donations, the movement of large holdings into consumption has resulted at times in substantial financial losses to CCC.

Dispositions

Commodities from the CCC inventory are moved into consumption outlets in various ways.

Some commodities are sold for domestic uses in the United States, and some are sold for export.

Some commodities have been bartered for goods and services to fill U.S. Government needs abroad, and for foreign produced strategic and critical materials for stockpiling.

In addition, commodities have been donated through Federal, State, and private agencies for use in child nutrition programs and in the assistance of needy persons in the United States; commodities are transferred for donation through U.S. welfare organizations and intergovernmental organizations to needy persons and child feeding programs abroad; and dairy products are transferred to the Veterans Administration for use in hospitals and to the Secretary of the Army for use by the Department of Defense.

Some grains are donated to aid livestock producers in declared acute economic distress and major disaster areas; some grains are sold at reduced prices to livestock producers in areas where feed is short due to drought, flood, hurricane, or other catastrophe.

How the CCC Inventory is Acquired

The Corporation's inventory* is a by-product, so to speak, of the programs undertaken by CCC to support agricultural prices. In carrying out support programs, CCC acquires its inventory in two principal ways:

1. Through "takeover." Commodities pledged as collateral for support loans are taken over by CCC if the commodity is not redeemed by loan repayment time.

Loans to producers are nonrecourse, in that producers are not obligated to repay their loans or make good any decline in the market price of the commodity they have put up as collateral. Instead, a producer can deliver or forfeit the collateral to CCC with settlement of the loan made at loan rate on the quantity and quality involved. When market prices are below the amount due on the loans, it is not advantageous for producers to pay off their loans in order to redeem commodities for their own use or for sale in the market. During such periods, the bulk of the loan stock is usually forfeited or delivered to CCC and becomes a part of the CCC price-support inventory.

2. Through purchases. Prices of some commodities are supported through purchases of the commodities from producers. CCC is committed to buy eligible commodities from producers, at producers' option, at the support level. This method of support is available to producers on a number of commodities on which loans are also available.

Support for milk and the products of milk is carried out through purchases of butter, cheese, and nonfat dry milk from processors and handlers.

Commodities and products acquired through purchase either go immediately into available outlets or, are placed in CCC's inventory.

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* Peak levels of CCC commodity inventories are shown on Page 13

CCC Inventory and Commodity Programs

CCC operations to help maintain balanced and adequate agricultural supplies have been an integral part of farm programs mandated by the Congress since 1933. When production exceeded needs, farm income was maintained by adding supported commodities to CCC stocks, thus stabilizing farm market prices. Production adjustment programs, when applicable, encourage farmers to hold down their output of some commodities that would find their way into the CCC inventory. The principle is that reasonable balance between supply and demand benefits both farmers and consumers.

CCC has applied the principle in part by moving commodities into use in times when demand was strong or crops were short, thus stabilizing market supplies and prices. In many instances, strengthened markets have resulted directly from Government-administered production adjustment programs designed to bring output down, or from Government-financed foreign aid programs to help those in need abroad.

Type of Commodities in the Inventory

Some people have visualized the support inventory as a big grocery store -- stocked with fresh fruits and vegetables, canned goods, fresh meats, preserves, and other products. This idea is far from reality.

First, there are no CCC support programs for processed products, other than dairy products.

Second, part of the inventory value is represented by commodities that are not foods at all -- such as cotton.

Third, many of the "food" commodities, such as wheat, corn, oats, and rye, are stored in raw, bulk form and require considerable processing before they can be used for food.

About the only food commodities acquired by CCC that can be put to immediate use without processing are dairy products and dry edible beans. Even these foods are generally in bulk or packed in large commercial-size containers not suitable for individual consumer distribution unless suitably repackaged.

Location of the Inventory

Commodities making up the CCC inventory are stored in many different places, primarily in commercial storage. Virtually all of the wheat is stored in commercial elevators, either in producing areas or in terminal markets.

Corn is stored on the farm and in commercial warehouses.

Most of the other grains are stored in commercial warehouses. Small quantities of some are stored on the farm.

Cotton is warehoused commercially, primarily in the South.

Butter is stored in commercial freezer storage and cheese in commercial cold storage.

CCC Dispositions Handled Through ASCS Commodity Offices

Dispositions of CCC commodities are handled principally by the regional ASCS commodity offices. The Prairie Village, Kansas, Commodity Office handles grains, beans and cotton. The Minneapolis Commodity Office handles processed commodities, such as dairy products, cornmeal, flour, and other processed commodities.

Sales by the commodity offices are made at fixed prices or through competitive bids on definite quantities and qualities.

These offices handle the details of shifting the stocks from location to location and supervise the storage, transportation, and inventory management activities. They also handle the arrangements for transferring commodities to other agencies for donation and other outlets.

Information on CCC-owned commodities available for sale and barter is contained in an Annual Sales List and a Monthly Sales List issued by the USDA at the end of each month and effective for the following month. The monthly list, which varies from month to month as CCC inventories change, shows in summary form the various announcements under which sales are made for each commodity. This list is made available to potential buyers.

Considerations in Making CCC Supplies Available for Use

The Corporation must consider many factors in making stocks available for movement into use and in determining the pricing policies to accomplish this movement.

Legal pricing restrictions must be observed.

Domestic needs must be considered. CCC dispositions may be essential at times to maintain an orderly flow of supplies to users.

Export needs and the level of world prices are factors.

The effect on farmers' and consumers' prices must be taken into account.

The effect of production adjustment programs, if in effect, must be gauged in order to fill the gap between output and needs as a means to maintain use at adequate levels.

The desirability of some turnover in CCC stocks to freshen them and reduce the possibility of deterioration is still another consideration.

Domestic Disposal Operations

Domestic Sale. With the exception of limited, specific emergency programs, CCC's selling prices on commodities for domestic use are never below the current market price for the same quality of the commodity.

In pricing commodities for domestic use, CCC also must stay within specified legal guidelines. Section 407 of the Agricultural Act of 1949, as amended, prohibits domestic "bargain sales" of basic and storable nonbasic CCC-owned commodities. CCC may not, in general, sell any such commodity in the domestic market at less than 105 percent of the current support level for the commodity, plus reasonable carrying charges. For upland cotton, CCC sells for unrestricted use at the same prices as it sells for export, in no event, however, at less than 110 percent of the loan rate for Middling one-inch upland cotton (micronaire 3.5 through 4.9), adjusted for such current market differentials reflecting grade, quality, location, and other value factors the Secretary deems appropriate, plus reasonable carrying charges. For the 1974-77 crops of wheat, corn, grain sorghum, barley, oats and rye, the minimum is not less than 115 percent of the current national average loan rate for the commodity, plus reasonable carrying charges and adjustments for value factors as determined. Aside from definite exceptions set by law, CCC makes domestic sales of these commodities at these prices or higher.

The objective of this provision is obvious. If CCC made a general practice of selling these commodities below support levels, such sales would tend to drive market prices down below support prices. This, in turn, would result in more support activity -- with more commodities coming into the Corporation's inventory.

Section 407 exempts from the minimum price restriction any commodities which are in danger of loss or waste through deterioration or spoilage, thus becoming unsuitable for further storage. CCC has followed a consistent policy of pricing these commodities at not less than the market price for a comparable quality. Despite the huge quantities taken into the inventory in past years, spoilage losses as a result of complete deterioration have been negligible. Commodities in danger of deterioration are sold before any appreciable loss occurs.

Peanuts and oilseeds sold for the extraction of oil are also exempt from the legal minimum provision. Such sales are made in line with oil market prices.

Dairy products, being considered nonstorable under legal authority, are exempt from the minimum pricing requirements of Section 407. However, sales of dairy products for domestic unrestricted use are made at prices moderately above the current support level.

Other exemptions from Section 407 restrictions on domestic dispositions are sales for new or byproduct uses, claims purposes, or other than primary uses, sales of wool, and sales of shortfall cotton.

Other Domestic Uses

Donations of Food Commodities. Section 416 of the Agricultural Act of 1949, as amended, authorizes CCC, in certain circumstances, to donate food commodities, acquired through support programs or from private stocks, to the Bureau of Indian Affairs, and to Federal, State, and private agencies for use in the United States in nonprofit school lunch programs and in summer camps for children; in the assistance of needy persons, and in charitable institutions, including hospitals, to the extent needy persons are served.

Donations for use in school breakfast programs and in child-care institutions are authorized by the National School Lunch Act, as amended, and by the Child Nutrition Act of 1966, as amended.

Under Section 709 of the Food and Agriculture Act of 1965, as amended and extended, the Secretary is authorized to use CCC funds to purchase sufficient supplies of dairy products at market prices to meet the requirements of any programs for the schools (other than fluid milk), domestic relief distribution, community action, and other programs authorized by law, when there are insufficient stocks of dairy products in the Corporation's inventory available for such purposes.

Grain for Migratory Waterfowl and Game Birds. The Corporation is directed to make available to the Secretary of the Interior grain acquired through support operations, to be used as feed for migratory waterfowl for the purpose of preventing crop damage.

The Secretary of the Interior is also authorized to requisition CCC grain for feeding starving migratory birds. In addition, any State may requisition CCC grain upon the finding of the Secretary of the Interior that resident game birds and other resident wildlife are threatened with starvation.

Distress and Major Disaster Areas. The Agricultural Act of 1949, as amended, directs CCC to make available its farm commodities or products for use in relieving distress in areas determined by the President of the United States to be acute distress areas because of unemployment or other economic causes, and also in connection with certain major disasters. During most of the years in the last decade feed grain has been donated to needy Indian tribes and to those suffering severely from natural disasters.

Emergency Area Livestock Feed. The Secretary can make feed owned or controlled by CCC available to eligible owners in areas where an emergency exists for foundation herds of cattle, sheep, and goats at not less than 75 percent of the current county loan rate, and at the current county support level for any livestock, when it is determined that an emergency exists. The sale of feed at these levels is authorized only to persons who do not have, and cannot obtain, sufficient feed without undue financial hardship. The program has been offered every year since 1959.

Dairy Products for Armed Services. To the extent that such quantities are in excess of usual commercial purchases, Section 202 of the Agricultural Act of 1949, as amended, directs CCC to make its stocks of dairy products available to the armed services and to veterans' hospitals without charge, except that such agencies shall pay CCC for the cost of packaging.

State and Federal Institutions. The Agricultural Act of 1956 authorizes CCC to donate food commodities acquired through support programs to Federal penal and correctional institutions, and to State correctional institutions for minors, other than those in which food service is provided on a fee, contract or concession basis.

Agricultural Export Programs

The United States is the world's leading exporter of agricultural products. Total U.S. exports for fiscal year 1973-74 are estimated to hit a record of more than $21 billion. The export market absorbed the production from one out of every four acres of harvested crops.

In a move to maximize exports of agricultural commodities and to consolidate export programs in one agency, the Secretary of Agriculture on February 4, 1974, established a new Foreign Agricultural Service (FAS), transferring to it all functions performed by the former Export Marketing Service (EMS).

Export Sales of CCC Stocks

The Foreign Agricultural Service (FAS) is responsible for CCC export sales of all commodities, except tobacco, peanuts, gum naval stores and tung oil, which are the responsibility of ASCS.

It is the policy of the Department in the sale of its inventories to endeavor to maintain, regain and expand export markets for U.S. agricultural commodities. This does not mean that all CCC stocks are offered for export sale at all times. As a general rule, they are offered for export sale when privately owned stocks are not sufficient to meet export requirements and world price levels are below the price at which CCC can sell for unrestricted use.

Care is taken to assure that sales are made in a manner and at prices which will not disturb world price levels. CCC export sales are not subject to the minimum pricing provisions that apply to domestic sales.

In recent years less emphasis has been placed on exports from CCC stocks; more on exports from private stocks. Most U.S. exports under the various programs discussed below flow from farms to ocean-going vessels through normal trade channels. This policy directs more of the export demand to current production and helps to strengthen farm prices. It reduces the amount of commodities that would otherwise be delivered to CCC. Furthermore, it makes a wider range of grades and qualities available for export under these programs throughout the year.

CCC Credit Program

Under CCC's Export Credit Sales Program, the Corporation finances commercial export credit sales by U.S. exporters of agricultural commodities from private stocks. Commodities purchased from CCC inventories may be exported under this program as private stocks.

The usual period for which such transactions are financed is 12 months, but a maximum of 3 years may be approved in special situations as, for example, when the longer period is needed to meet competition from other countries or to permit the establishment or expansion of commerical markets for agricultural commodities in importing countries. Generally, for financing periods in excess of 12 months, the concurrence of the National Advisory Council on International Monetary and Financial Policies (NAC) is required.

The financing is accomplished through the purchase by CCC of the exporter's account receivable arising from the export sale. Agricultural commodities which are eligible for export financing under this program are specified in an announcement published monthly by USDA. Interest rates are determined in accordance with established criteria and are announced each month. The interest rate applicable to a particular financing agreement is specified in the agreement. In all sales financed under the program, the U.S. exporters pass the credit on to the foreign buyers. A letter of credit is issued by a U.S. bank or an acceptable foreign bank is required to assure payment.

Barter

When utilized, barter exports were used in later years almost exclusively to generate funds for the procurement abroad of goods and services for use overseas by U.S. agencies, which reimbursed CCC.

Procurements through barter have included such items as airplane parts and repairs, military base maintenance, and port handling and transportation services for the Department of Defense. Arranging for agricultural exports through barter transactions to finance offshore procurement of these items by U.S. agencies was designed to help the U.S. balance of payments.

If a barter program is in effect, agricultural exports are made through private trade channels and are regarded as part of total U.S. commercial sales. In order to avoid undue disruption of world prices, or replacement of cash sales, the barter program limits the countries to which agricultural commodities may be exported.

Barter contracts generally run for a period of one year. During that period, the contractor both provides procurement funds and exports agricultural commodities.

When contractors are reimbursed by CCC for commodities exported before they provide funds for procurement, they must furnish CCC with irrevocable letters of credit to assure CCC against loss.

Interest is charged for any period during which the CCC reimbursements exceed funds provided by the contractor.

Sales Under Title I, Public Law 480

Substantial quantities of agricultural commodities are sold abroad on concessional terms under Title I of Public Law 480, 83rd Congress -- also cited as the Agricultural Trade Development and Assistance Act of 1954, as amended.

There are two types of sales programs under Title I of P.L. 480; Sales Under Government-to-Government Agreements, and Sales under Private Trade Agreements.

These programs enable the U.S. to supply commodities to importing countries which lack sufficient foreign exchange to purchase commercially all the commodities needed to meet their domestic requirements.

Government-to-Government Sales Agreements. The payment terms of Government agreements may be for a maximum of 20 years, with 2 years grace, for dollar credit sales agreements, and a maximum of 40 years, with 10 years grace, for convertible local currency credit sales agreements.

Under terms of convertible local currency sales agreements, installment payments must be paid in U.S. dollars, unless the United States elects to receive payments in local currency to provide for its currency needs in the importing country.

The minimum interest rate on all Title I credit sales is 2 percent during the grace period, and 3 percent thereafter. However, some agreements have interest rates higher than the minimum.

As originally enacted in 1954, P.L. 480 provided for sales for foreign currencies only. The credit sales provision was added in 1959, and there was a gradual increase in the volume of credit sales through 1966.

The 1966 amendment of the Act required a progressive transition from sales for foreign currencies to sales for dollars by December 31, 1971, or to the extent that it was not possible to effect such a transition, to sales for convertible local currencies on credit terms described above. No local currency sales agreements were to be entered into after December 31, 1971.

Transactions under Title I Government-to-Government credit agreements involve the following steps:

1. The government of the foreign importing country enters into an agreement with the Government of the United States of America to purchase agricultural commodities in this country and pay for them under dollar credit or convertible local currency credit terms. A specified portion may be paid in local currency if it is determined the U.S. would otherwise have to buy such currency.

2. The importing country applies for purchase authorizations providing for dollar financing of the commodity sales and specifying the conditions under which the financing will be done. When authorizations are issued, the importing country designates certain banks in its country and in the U.S. to participate in the program. CCC issues letters of commitment to the U.S. banks in the amounts requested by the importing country. Each letter of commitment names the foreign bank, as well as the U.S. bank, and constitutes commitment by CCC to reimburse the U.S. bank in dollars for payments made under letters of credit for the account of the foreign bank.

3. A commercial importer or the importing country buys U.S. commodities from a U.S. exporter who supplies them from U.S. commercial stocks. The importer pays for them in foreign currency to the foreign bank. The foreign government pays for the commodities under the terms of the agreement. The American exporter, however, receives his payment in dollars from the U.S. bank. The U.S. bank is reimbursed by CCC.

4. The foreign currency acquired from past foreign currency agreements is used abroad by the U.S. for such purposes as the development of new markets for U.S. farm products; procurement of military equipment, materials, facilities, and services for the common defense; payment of U.S. obligations abroad; and financing of international educational exchange activities.

5. If the agreement provides for payment in dollars or convertible local currency, then the sales proceeds are used by the foreign government for economic development projects as are mutually agreed upon by the two governments. Payments are made according to the credit terms of the agreement. To the extent CCC receives dollars through credit payments and sales of foreign currencies accruing under Title I transactions, it reduces its request for reimbursement through appropriations.

Private Trade Dollar Credit Sales Program. Private trade entities of the United States or of countries friendly to the U.S. which meet program requirements are eligible to enter into P.L. 480 private trade agreements with CCC, acting on behalf of the Secretary of Agriculture.

The amount financed by CCC may be repaid over periods of not to exceed 20 years from the date of last delivery of commodities in each calendar year, usually in equal annual installments. The interest rate is set as closely as practicable at the cost of funds to the U.S. Treasury for comparable maturities. Interest is due and payable annually on the principal payment due dates.

The first principal installment is due on the date specified in the agreement. This date can be no later than two years after the date of last delivery of commodities in the calendar year. Subsequent annual installments are due on the anniversary dates of the first installment.

Preference is given to agreements involving use of the commodity sales proceeds to finance projects which will directly assist in developing additional commercial markets for U.S. agricultural commodities -- such as facilities for food processing and distribution, and other supporting facilities and services essential to efficient and economic marketing.

Commodity purchase and financing procedures applicable to the P.L. 480 private trade credit sales program are generally similar to those outlined in steps 1, 2, and 3 above for Government-to-Government agreements.

Export Payments

Domestic market prices of some supported U.S. commodities at times are higher than world market prices. To make it possible for these commodities to compete in foreign markets and to help the U.S. balance of payments,

the Department of Agriculture through the Commodity Credit Corporation is authorized to operate an export payment program. The program, when necessitated, is administerd by the Office of the General Sales Manager of FAS.

When in effect, payments are made to exporters in the form of cash. The amount of payments is announced regularly and is sufficiently large to span the gap between U.S. domestic market prices and world prices.

In the case of wheat and flour, the export payment rates have been determined and announced daily. Exporters receive these payments when the wheat is exported and the sale registered with CCC. Export payment rates for rice have been announced weekly. In the case of tobacco, fixed export payments were established in the tobacco export program announcement.

Foreign Donations Under Title II

Food commodities in excess of estimated domestic requirements, adequate carryover, and anticipated dollar exports may be supplied to nonprofit voluntary agencies registered with the Advisory Committee on Voluntary Foreign Aid, to foreign governments, and to intergovernmental organizations, such as the World Food Program. These donations are made under authority of Title II, P.L. 480. They are to meet famine or other urgent relief requirements; to combat malnutrition; to promote economic and community development in friendly developing areas, and for needy persons and nonprofit school lunch and preschool feeding programs outside the United States.

American voluntary agencies and intergovernmental organizations currently participating are: American Jewish Joint Distribution Committee, American National Red Cross, Catholic Relief Services -- U.S.C.C., Church World Service, CARE, Hadassah, Lutheran World Relief, Seventh-Day Adventist Welfare Service, N.A.E. World Relief Commission, United Nations Children's Fund, United Nations Relief and Works Agency, and World Food Program.

Peak Levels of CCC Commodity Inventories

Commodity	Unit	Record Inventory Quantity	Record Inventory Value (Millions)	Date of Record Inventory
Beans, Dry Edible	Cwt.	9,802,905	$ 80.3	Aug. 31, 1950
Cotton				
Extra Long Staple	Bale	148,648	38.1	Aug. 31, 1966
Upland	Bale	11,864,188	1,783.4	Aug. 31, 1966
Cottonseed Oil				
Crude	Pound	39,185,302	4.4	Feb. 28, 1959
Refined	Pound	1,024,573,416	173.2	April 30, 1954
Dairy Products				
Butter	Pound	520,847,552	327.0	Sept. 30; 1954
Butter Oil	Pound	110,729,453	87.2	Sept. 30, 1963
Cheese	Pound	463,363,100	174.0	Oct. 31, 1954
Milk, Dried	Pound	744,533,582	109.8	July 31, 1963
Feed Grains				
Barley	Bushel	100,839,675	98.9	July 31, 1959
Corn	Bushel	1,472,845,459	1,878.2	Nov. 30, 1961
Grain Sorghum	Bushel	720,936,582	781.1	April 30, 1962
Oats	Bushel	199,644,553	124.1	Sept. 30, 1971
Rye	Bushel	27,340,241	28.4	Aug. 31, 1971
*Flaxseed	Bushel	27,098,555	72.5	July 31, 1971
Honey	Pound	6,167,922	0.7	June 30, 1953
Linseed Oil	Pound	528,027,934	150.1	Feb. 28, 1951
Peanuts				
Farmers' Stock	Pound	324,805,409	35.8	Jan. 31, 1952
Shelled	Pound	105,773,769	15.0	July 31, 1960
Rice				
Milled	Cwt.	14,337,127	154.0	Sept. 30, 1956
Rough	Cwt.	16,046,379	85.7	May 31, 1957
Soybeans	Bushel	182,407,689	472.7	Oct. 31, 1969
Tung Oil	Pound	42,049,479	10.5	Nov. 30, 1970
Wheat	Bushel	1,276,830,359	2,552.4	May 31, 1961

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*Quantity of flaxseed as of 7-31-71 exceeds quantity as of 1-31-49, but value is less as of 7-31-71 because carrying charges not included. Carrying charges were included in 1949 value. Revalued basis of inventory (which excludes carrying charges) started June 1953.